Food and Agriculture
Organization of the
United Nations


# Development of a Sustainable Fisheries Fund for the Western Central Atlantic

**A stepwise approach prepared with support from Wilderness Markets and Conservation International**

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Food and Agriculture Organization of the United Nations
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# Acronyms

| | |
|---|---|
| AsDB | Asian Development Bank |
| CC | Climate Change |
| CI | Conservation International |
| DFI | Development Finance Institution |
| FAO | Food and Agriculture Organization |
| GEF | Global Environment Fund |
| IFC | International Finance Corporation |
| IUU | Illegal, Unreported and Unregulated |
| MFI | Monetary Financial Institution |
| NGO | Non-Governmental Organisation |
| OPIC | Overseas Private Investment Corporation |
| OPP | Ocean Partnership Project of the Global Environment Fund, World Bank, CI, FAO |
| RFMO | Regional Fisheries Management Organisation |
| SDG | Sustainable Development Goal |
| SFF | Sustainable Fisheries Fund |
| SME | Small and Medium Size Enterprise |
| SW | Sovereign Wealth |
| TA | Technical Assistance |
| WB | World Bank |
| WECAFC | Western Central Atlantic Fishery Commission |

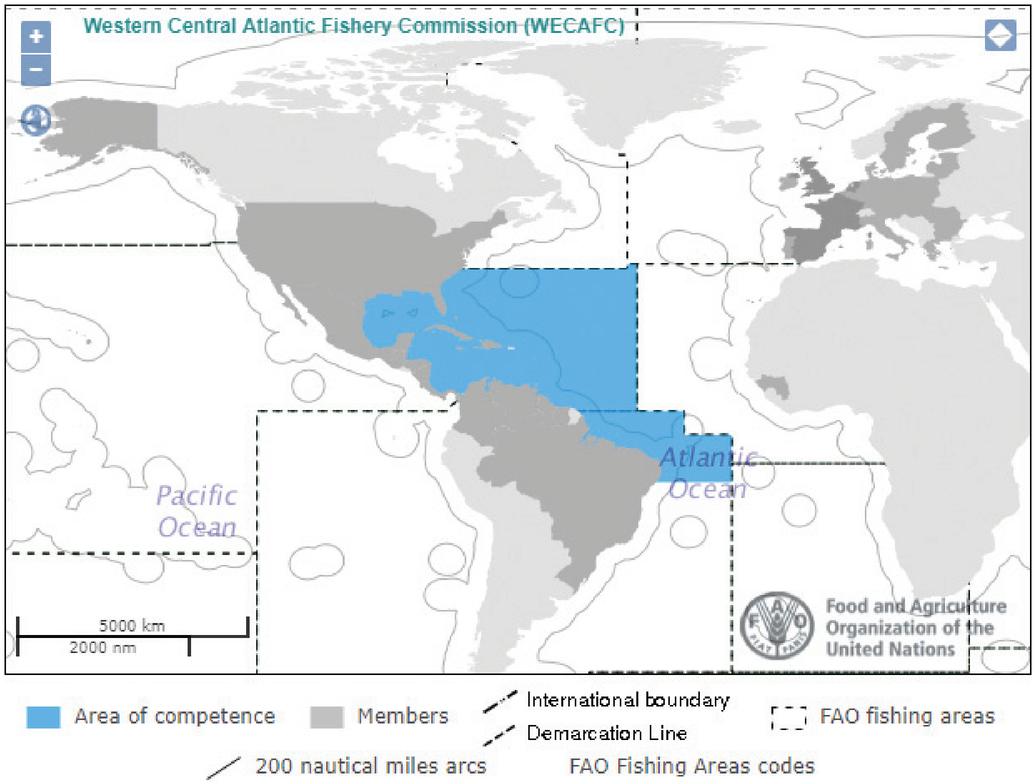
# Purpose and background

This brochure is intended to provide guidance and proposed next steps for the development of a Sustainable Fisheries Fund (SFF) for the Western Central Atlantic Fishery Commission (WECAFC). The WECAFC member countries and FAO are currently working on the establishment of a regional fisheries management organization (RFMO) in the Western Central Atlantic region.

This brochure does not address the merits of the RFMO, which have been documented elsewhere.[1] This document focuses on a potential funding concept, which would act as an intermediary for deploying capital to support the transition to sustainable fisheries in the region. This document provides a short overview of the SFF and the next steps in the development process of the SFF concept for consideration by relevant governments and investors.

This brochure builds on the findings from the efforts by the Ocean Partnership Project (OPP) in 2018 to elucidate a business case for the WECAFC RFMO structure and shared regional stocks that would ultimately contribute to reversing the trend of decreasing fish production in the region.[2] No specific business cases were identified at the time for the WECAFC or the four shared stocks (spiny lobster, queen conch, shrimp and dolphinfish) reviewed therein. However, the business case development process acknowledged opportunities for strategic investments in fisheries data, fisheries management and financing.[3,4] Recognizing that governments cannot manage and conserve fisheries resources without active involvement and support from the private sector, it was proposed that a transition of the private sector towards sustainable fisheries would be key to successful fisheries governance. The SFF would enable the private sector small and medium enterprises (SMEs) in fisheries and seafood companies to make the preferred transition towards sustainability. The SFF will contribute to business investments that will provide social, economic and environmental returns, the desired triple bottom line.

**FIGURE 1: Map of the WECAFC area***




* www.fao.org/fishery/rfb/wecafc/en

# A Sustainable Fisheries Fund for the Western Central Atlantic

The Western Central Atlantic Fishery Commission (WECAFC) agreed at its 16th session, held in Guadeloupe in 2016, to start a process towards transition into a Regional Fisheries Management Organization (RFMO). This process is ongoing.

Since 2012 WECAFC has made “Recommendations” that promote harmonized sub-regional or regional fisheries conservation, management and development, establish regional measures, and endorse fisheries management plans for sub-regional or regional implementation. These recommendations are not binding for the member countries, because WECAFC is a regional fishery advisory body, and not (yet) an RFMO.

While many WECAFC member countries and partner agencies implement the agreed fisheries management and conservation recommendations, there is no penalty for not implementing, apart from the fact that the fish stocks may further decline. Some members implement only part of the recommendations or do not implement certain recommendations, because of limited relevance (in some cases) or insufficient capacity (funds or staff). There is generally a willingness to implement the recommendations, as they are developed based on sound scientific advice, in consultation with the stakeholders, and agreed by consensus at the sub-regional and regional levels.

Some of the regionally agreed recommendations may become binding when WECAFC becomes an RFMO, which will be beneficial for the fish stocks and long-term sustainability of the fisheries, but will also result in (short-term) costs for governments and the private sector.

Implementation of the fisheries management and conservation recommendations is not just the task of governments, but involves all stakeholders. For instance, recommendations that promote greater traceability of fishery products, call for changes in gears and fishing methods, or determine closed seasons, all can have serious impact on the private sector fishers, fishing enterprises, processors and exporters.

It is proposed to establish a Sustainable Fisheries Fund in support of the WECAFC to increase access to credit for SMEs active in the fisheries sector to:

- Facilitate implementation of regional fisheries management and conservation recommendations by private sector fishers, fishing enterprises, fish processors and exporters.
- Meet national and international standards related to the fisheries products value chain/fish trade and regulations related to Illegal, Unreported and Unregulated (IUU) fishing.
- Promote the introduction and region-wide distribution of more sustainable fishing gears and technologies.
- Adapt to the challenges of climate change (CC) in the fisheries sector and make preventive investments to reduce the impact of natural disasters on the sector.

The Sustainable Fisheries Fund (SFF) would have the objective **to enhance the conservation and management of marine aquatic resources and promote sustainable fisheries operations and value chains in the Western Central Atlantic**.

The SFF would enable the private sector involved in fisheries in the region to access credit at relatively low interest rates, guarantees and more flexible conditions, compared to commonly applied commercial bank loans. The increased credit access is intended to contribute to faster and wider implementation of regional fisheries recommendations by the private sector.

The SFF is an **innovation** in fisheries impact investments, as it will be the first fund that will directly promote RFMO recommendations implementation by the private sector.

The funds necessary for the SFF, expected to be a credit line in the order of USD 40–50 million, would be provided by foundations, development banks and WECAFC members with an interest to contribute to the above objectives.

The credit line would be accompanied by a grants component of USD 4-5 million to cover technical assistance and part of the SFF management costs. The RFMO secretariat and the fund management would provide technical assistance in terms of business planning support to private companies in fisheries interested in the credit opportunities.

The RFMO Secretariat will also monitor the use of the credit line, and will report to the WECAFC Commission on the contributions of the credit towards conservation and management of the resources and towards sustainable development of the fisheries sector in the region. This impact monitoring by an RFMO is another unique feature of the SFF.

**TABLE 1: Benefits of the SSF include:**

| FOR THE PRIVATE SECTOR | FOR GOVERNMENTS | FOR THE CREDIT SUPPLIERS |
|---|---|---|
| Reduce costs of credit /increase profitability | Increase uptake & implementation by the private sector of fisheries management/conservation recommendations | Contribute to implementation of scientifically based measures that rebuild stocks and that deter and prohibit non-sustainable fishing practices |
| Support implementation of (binding) fisheries management measures | National level financial institutions used as intermediatory, which builds and maintains local expertise and ownership and contributes to employment | Monitoring of impact guaranteed within RFMO structure |
| Receive technical support for business development | Reduce reliance on the government and its subsidies for adapting to CC | Opportunity to ensure socially and environmentally responsible investments in fisheries |
| Aid meeting market and IUU requirements | Meet regionally made commitments | Through (indirect) fund provision, reduction of transaction costs |
| Facilitate adaptation to CC | Secure access to credit and investment for the sector, tied with sustainability controls | Reduced risks of non-repayment of loans through use of local banks |
| Contribute to environmental sustainability | Support the competitiveness of the fisheries sector in the export markets | Technical assistance (TA) costs covered by WECAFC members |

# Development process for the Sustainable Fisheries Fund

An SFF, to support private sector engagement with the proposed RFMO and the implementation of measures to achieve fishery sustainability, is novel. An RFMO in the WECAFC region has the potential to address many key challenges in sustainable fisheries of regionally shared and transboundary fisheries resources.

Appropriately designed and combined with strong management under an RFMO, the investments of the SFF in fisheries technologies, climate change adaptation, supply chain improvement and market access can be complimentary to improving social, economic and environmental benefits in alignment with the Blue Growth Initiative and the Sustainable Development Goals (SDGs).

The proposed SFF may be considered an "experimental" fund. The focus would be to prove out a concept. It will almost certainly require a substantial technical assistance facility in order to achieve its objective. This will require raising capital from risk tolerant investors and deploying capital to generate the financial, social and environmental outcomes envisioned. Only once this has been achieved in a systematic manner can the SFF seek to scale.

Four stages are anticipated in the transition of the fund from concept to reality:

- **Development of a preliminary concept:** Documenting the broad parameters of a preliminary concept/investment strategy for the fund.
- **Feasibility and design:** Demonstrating the market opportunity and viability of the proposed fund
- **Implementation:** Implementing the proposed fund
- **Closing*:** Securing the first tranche of investment capital

Subsequent to these stages will be the operational stage of the now established fund. Only at the operational stage will the human and capital resources be deployed to achieve the target objectives. The budget required to complete stages 1 to 4 is estimated between USD 500 000 and 800 000. The details of what will have to be done at each stage are presented in Table 2 on the following page.

* Closing: Refers to the financial close when all legal, project and financing documents have been signed, and the conditions contained have been met. It enable funds to flow so that implementation and activities may commence.

**TABLE 2: Stages in the SFF development**

## 1 Description of fund concept

**NOTE/INVESTMENT STRATEGY**

## 2 Feasibility and design

**FEASIBILITY ASSESSMENT**

- Market Assessment
- Capital Assessment

**DESIGN PHASE**

- Market Analysis
- Evaluate the characteristics of the funding demand from potential investees (product, size, type of investees, etc.)
  - Deliverable — Market demand report
- Investment Strategy
- Confirm the objectives of the preliminary concept and adjust to market needs
  - Deliverable — Strategy report
- Financial Model
- Model a sample investment portfolio and evaluate its risk and return
  - Deliverable — Sample model
- Structure design
- Design the most appropriate structure considering risk and return of the portfolio and target investors
  - Deliverable — Technical paper, version 1 (V1)

**LEGAL FEASIBILITY**

- Evaluate the appropriate regulatory environment and potential legal issues for the investment vehicle
  - Deliverable — Technical paper, V2
- Term Sheet
- Specify all terms and conditions of the investment vehicle
  - Deliverable — Term sheet V1
- Investor Relations
- Discuss the strategy report, technical paper and term sheet with potential investors
  - Deliverable — Term sheet, V2 and technical paper, V2

**ESTIMATED BUDGET: USD 150 000 – 250 000**

## 3 Implementation

**BUSINESS PLAN**

- Summarize all information from design phase to use in the marketing of the vehicle to investors
  - Deliverable — Business plan

**SERVICE PROVIDER SELECTION**

- Administrative agent, auditor, asset manager, etc
  - Deliverable — Expression of Interest, RFP, evaluation reports

**LEGAL DOCUMENTATION**

- Drafting of all required legal documents for the establishment of the Vehicle
  - Deliverable — Multiple documents

**ESTIMATED BUDGET: USD 150 000**

## 4 Closing

**INVESTMENT PIPELINE**

- Identification of investment prospects and preliminary discussions with them
  - Deliverable — Preliminary term sheet

**ACQUISITION OF INVESTORS**

- Marketing of the Vehicle and Negotiation with investors
  - Deliverable — Marketing materials, road show supports

**FIRST CLOSE**

- Organisation of the 1st close
  - Deliverable — Implementation plan

**ESTIMATED BUDGET: USD 250 000 – 300 000**

# Overview of Sustainable Fisheries Finance

The SFF is intended to operate in the highly nascent impact investing market for sustainable fisheries, and support its development. Current participants, ranging from non-profit organizations to funds, cooperative groups and private corporations are all engaging in what amounts to "uncoordinated innovation", seeking to address three major needs in the evolution of this market:[5]

- Building efficient intermediation to unlock latent supplies of capital (examples include the Meloy Fund and the Althelia Ocean Fund)
- Building an enabling infrastructure for the industry (examples include efforts to improve insurance and access to capital by the World Bank and others)
- Developing absorptive capacity for investment capital (examples include the CI/FAO Grenada tuna project; efforts by various NGOs and governments to build cooperative capacity)

The development of absorptive capacity in the sustainable seafood market has been the focus of a number of initiatives, and has been documented elsewhere both as part of the Ocean Partnership Project and related initiatives. There is an established seafood industry comprised of a number of mature enterprises in most fisheries around the world. While some only serve domestic markets, most serve export or international markets. The vast majority of these enterprises are however not actively engaging in achieving triple bottom line outcomes (defined as social, environmental and financial outcomes) for a variety of reasons. This is the case as well with most seafood enterprises and SMEs active in the fisheries value chain in the Caribbean/Western Central Atlantic.

A strategy to engage these international and regional seafood enterprises and SMEs in fisheries to adopt sustainable practices will likely include a combination of improved management measures, participation in the work of a RFMO, access to technical assistance, and access to financing to implement the desired changes in practice.

The majority of the sustainability focused initiatives in sustainable seafood fall in the "Early Stage Development" stage of the conservation investment lifecycle as depicted in the Table 3.[6] Even where established seafood enterprises and fisheries SMEs are seeking to achieve triple bottom line outcomes, there are few existing models successful in open access fisheries situations.[7]

The challenges associated with market development, deal size, transaction costs and efficient intermediation models all need to be addressed in this stage.[8]

**TABLE 3: Stages of the conservation investment life cycle**

| | EARLY-STAGE DEVELOPMENT | ESTABLISHMENT OF BUSINESS MODEL | REPLICATION/ SCALE-UP | COMMERCIALIZATION |
|---|---|---|---|---|
| Regulatory policy, markets | Development of regulation and market structures | | | |
| Description | • Pilot projects/proof of concept<br>• Experimental approaches | • Single ecosystem projects<br>• Stable expectation of cash flows, risks and returns<br>• Government establishes regulatory framework | • Multiple proven projects spanning a country, or replication of proven business model across multiple countries or ecosystems | • Tradable investments into conservation classes<br>• Investments into associated markets |
| Investment instruments | • Venture philanthropy<br>• Grant-making equity/ catalytic first-loss absorbing equity<br>• Grants/donations<br>• Seed funding | • Project and early-stage finance<br>• Venture capital | • Specialized investment vehicles (e.g., funds, feeder platforms)<br>• Equity investment | • Market instruments (e.g., equity, bonds, options)<br>• Securitized cash flows |
| Investors | • NGOs<br>• Grant-making trusts<br>• Venture philanthropists<br>• Development banks | • Venture philanthropists<br>• Development banks<br>• NGOs<br>• High Net Worth Individuals | • Large-scale NGO JVs<br>• Development banks<br>• High Net Worth Individuals | • Institutional investors<br>• Retail investors<br>• High Net Worth Individuals |
| Investment profile | • Very high risk compared to similar investments in other sectors<br>• Very illiquid<br>• Uncertain recovery of principal | • High risk<br>• Medium investment horizon possible<br>• Possibly high IRR upon exit | • Medium risk<br>• Long-term, stable returns<br>• Long investment horizon, rather illiquid | • Low risk compared to similar investments in other sectors<br>• Liquid |

*Source*: Credit Suisse, World Wildlife Fund, McKinsey & Company; Conservation Finance: Moving Beyond Donor Funding toward an Investor Driven Approach 2014
www.cbd.int/financial/privatesector/g-private-wwf.pdf

As stakeholders consider the concept of a sustainable fisheries fund, this brochure aims to provide guidance on the next steps for efficient intermediation to unlock latent capital for sustainable fisheries. It builds on the following assumptions:

- Investments in sustainable natural capital markets and assets are growing and evolving; sustainable fisheries investments are a potentially important subset of this market.
- Investments in enterprises capable of realizing the value of sustainable natural capital and healthy ecosystems as they relate to fisheries will be required.
- Such investments may require technical assistance (TA) to be provided directly to these enterprises or through intermediaries.
- The main target investors for SFF are impact first investors interested in realizing triple bottom line gains in terms of conservation, social and economic impacts.

Conceptually, the SFF will have an early mover advantage in helping to set standards (particularly if aligned with the RFMO), develop and build this market and provide an efficient mechanism for the aggregation and investment of capital. As a structured fund, it should attract private and public investors of different classes of risk appetites and interest expectation. The SFF will include a technical assistance component to address the challenge of absorptive capacity in tandem with efforts to develop absorptive capacity.

As an “early stage development” fund, it will develop pilot projects or “proof of concept” initiatives utilizing experimental approaches. It will likely utilize grant type equity structures, and require significant “first loss” absorbing equity. The investment profile is likely to be highly risky compared to investments in other more developed sectors and very illiquid with an uncertain recovery of principal due to the underlying nature of the assets. However, given that the SFF will be able to benefit from capacity building and technical assistance from within the RFMO framework, some of the risks involved in this stage will be significantly reduced.

Regardless of the approach utilized, the fund proposed is very much in the “experimental” phase of fund evolution. As depicted in Table 4, it still needs to “prove the concept” in the fisheries sector in the Caribbean/Western Central Atlantic and be comfortable with high transaction costs, low liquidity, a wide variation of return profiles and very limited track records. Once the concept has been proven and replicated (as needed), the SFF may move on to “grow and refine”, where it can extend its geography and appeal to a broader array of investors.

**TABLE 4: Stages of fund growth and risk/return profile**

Effective funding models match:

| | Experiment | Catalyze | Scale |
|---|---|---|---|
| Demand (funds) | "Prove the concept"<br>• Proving country, sector, business model, or application of finance instrument<br>• Wide variance of risk-returns, greater tail risk<br>• Small deals, high transaction costs, limited track record | "Grow and refine"<br>• Aggregating small-scale proven models into larger vehicles<br>• Allocating and pricing risk according to risk appetites<br>• Track record to demonstrate risk-return and team skills to investors | "Deploy large-scale capital"<br>• Deploying larger pools of institutional capital towards proven concepts<br>• More stable returns, lower tail risk, lower transaction costs<br>• Strong, comparable track records for sector and fund managers<br>• New vehicles/financial instruments created for sector and risk management |
| | • Proactive development of a sector with limited "access to finance"<br>• "Development subsidy" required for operations and returns | • Opening up of sector with more funds entering<br>• Track record is being developed and fund operations sustainable | • Sector risks and drivers are well-understood and many funds competing; Fund differentation and returns are key<br>• Profitable operations and fund returns |
| | **Impact investors** | **Balanced financial & social returns** | **Commercial returns** |
| Supply (investors) | • Initally tends to impact-first investors, e.g. foundations/ High Net Worth Individuals<br>• Willing to privide time-bound subsidy to prove concept<br>• Examples:<br>  • IFC, OPIC, AsDB<br>  • US/EU family offices/foundations<br>  • Corporates | • Specialized intermediaries or innovative aggregators<br>• Success requires knowledge of both impact-first and financial-first worlds<br>• Examples<br>  • OPIC, IFC, AsDB<br>  • EU/US family offices/foundations<br>  • Private banks<br>  • Socially-focused Limited Partners | • Larger institutional investors, tend to be financial-first investors<br>• Require larger deal sizes<br>• Fiduciary constraints may limit risk appetite<br>• Examples:<br>  • EU/US Pension funds and other LPs<br>  • Investment banks<br>  • SW funds |

*Source*: Dalberg Global Advisors; personal communications

# Developing an investment strategy for the Sustainable Fisheries Fund

At the design of the fund concept and scope of the SFF it is important to determine a proper investment strategy.

The investment fund strategies and models for the SFF can be described along six dimensions:

- **Type of Investment:** The nature of the opportunities and local SMEs and regional seafood enterprises identified in the market demand assessment, along with the impact objectives of the investments, will define the type of investment to be made.
- **Investment Instrument:** Debt, equity, working capital, and end user finance are different forms of investment instruments that may be utilized to secure a return and the intended impact.
- **Support Required:** Technical assistance, value chain interventions and training support, once defined, may be essential to improve success rates and reduce risk of failures.
- **Operating Model:** The cost structure, staffing and investment volumes, can be defined once the first three dimensions are identified in order to determine the viability of a model.
- **Type of Funding:** Debt, grants, equity investments are potential sources of financing for the SFF.
- **Type of Investors**: Based on the risks built into the portfolio, different types of investors will be attracted to the SFF opportunity provided, which will impact the cost of capital, timeframe and participation.

Linked to this last point, each investment fund strategy will have an expected gross and net return based on a set of assumptions described for each model.

**TABLE 5: Potential investment objectives for the Sustainable Fisheries Fund (SFF)**

| EXAMPLES OF SUSTAINABLE FISHERIES OBJECTIVES | POSSIBLE METRICS | EXAMPLES OF CREDIT PURPOSES |
|---|---|---|
| Improve the stock status of the fisheries resources | • Stock status improvements<br>• Bycatch reduction<br>• Reduction of discards<br>• Management and conservation recommendations | • Bycatch Reduction Devices (BRDs)<br>• Turtle Excluder Devices (TEDs)<br>• Electric-pulse trawls<br>• Circle hooks in long-lining<br>• Adoption of more environmentally sustainable fishing gears and methods |
| Ensure the sustainable operations in fisheries | • Fish production levels<br>• Fuel/energy consumption reduction<br>• Reduction in fishing gear losses<br>• Catch per unit of effort levels | • Fuel efficient fishing vessels<br>• Propulsion system improvements<br>• Biodegradable and collapsible traps<br>• Installation of GPS/FishFinder/Sonar etc.<br>• Transhipment vessels |
| Reduce IUU fishing | • Regional/national vessel records and IUU vessel lists are up-to-date<br>• Level of unreported catches is reduced<br>• Gear and vessel markings are implemented<br>• Ratification and implementation of international fisheries and labour instruments | • Purchase and maintenance of Vessel Monitoring Systems (VMS)<br>• Adoption of e-logbook systems and fisheries management information systems<br>• Installation of traceability systems<br>• Equipment and on-board working conditions improved |
| Increase the value generated from the fisheries | • Value of fish catches and exports increases<br>• Customs information<br>• In-country value addition<br>• Employment in fisheries and fish value chain increases | • HACCP/ISO certified systems<br>• MSC certification<br>• Fishery Improvement Projects (FIPs)<br>• Improving fish handling, product quality and food safety, including improvements in rapid and more animal welfare compatible methods for killing of fish, such as electric stunning and bleeding of tuna, computerized weighing/ scaling/ grading, traceability systems starting on-board, and better quality control systems. |

# Review of strategy and business model options

There are three important areas relevant in determining possible financial opportunities for value chain participants in the transformation to a sustainable fisheries sector:[9]

- **Improving stock health** — leads to a more abundant resource that supports higher long-term yields and makes fish less costly to find and to catch
- **Increasing operational efficiency** — reduces the cost of fishing operations and delivery of fish through the supply chain, improving profit margins and thus improving the returns from fishing as a whole
- **Increasing market value** — through improved market access, certification, branding and long-term partnerships more value is generated for fishers and other value chain stages

There are numerous examples related to improving operational efficiency and improving market value, but very few that link these two opportunities with improving also the health of fish stocks.[10]

It is important to note that the selection of a particular strategy and business model option should be undertaken after completion of a proper market supply and demand assessment, which has not been done as yet for the SFF. The WECAFC members may play an important role in defining the appropriate strategy.

At this moment, after having assessed various options for direct lending, which turned out to be of limited viability, the option of an SFF which uses a business model based on **intermediary lending** appears most viable.

In this model the SFF would provide local banks and financial organizations in selected WECAFC member countries with capital to invest in local SMEs in fisheries and regional seafood enterprises.

The SFF intends to increase access to credit for these enterprises to:

- Facilitate implementation of regional fisheries management and conservation recommendations by private sector fishers, fishing enterprises, fish processors and exporters.
- Meet national and international standards related to the fisheries products value chain/fish trade and regulations related to IUU fishing.
- Promote the introduction and region-wide distribution of more sustainable fishing gears and technologies.
- Adapt to the challenges of CC in the fisheries sector and make preventive investments to reduce the impact of natural disasters on the sector.

The SFF model envisages different tiers of shareholders to address risks associated with different classes of capital, an investment committee, an investment manager and a parallel WECAFC member supported technical assistance facility as depicted in Figure 2.

**FIGURE 2: SFF model structure**

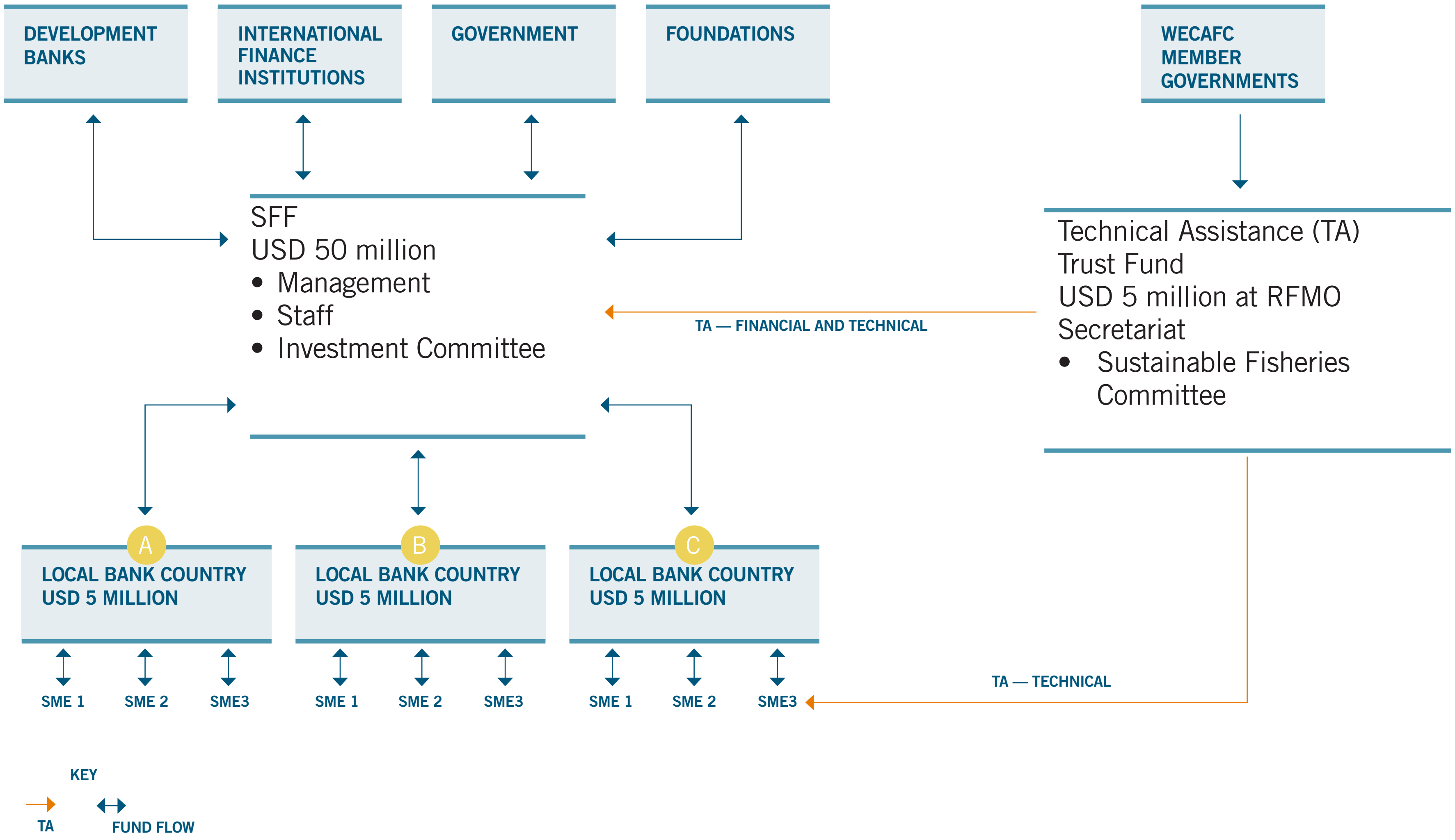
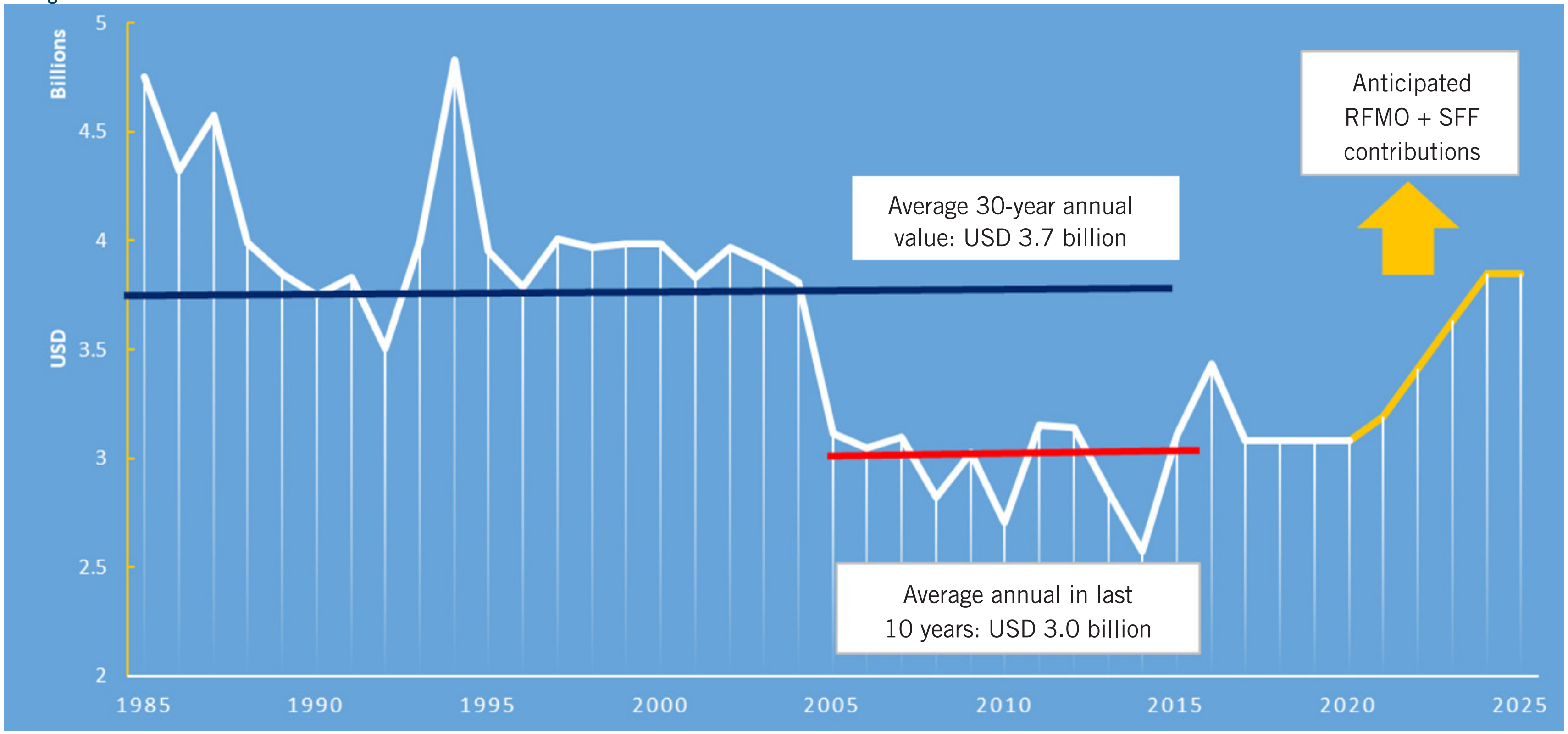


**FIGURE 3: Past and anticipated RFMO and SFF contributions to the value of off-vessel fish landings in the Western Central Atlantic**




*Source*: FAO. 2016a. "Findings of the independent cost-benefit assessment of the options for strategic re-orientation of WECAFC" by Kjartan Hoydal. FAO Fisheries and Aquaculture Circular. No. 1117. Bridgetown, Barbados

# Market demand assessment

It is highly recommended that, following the development of the fund concept/investment strategy, a market supply and demand assessment is undertaken. A preliminary market assessment was undertaken with support of the OPP for four priority regional stocks (shrimp, queen conch, spiny lobster and dolphin fish) in the Western Central Atlantic fisheries, which consisted of a desk review and interviews with key stakeholders.[11] The results of this assessment for the four stocks did not reveal an immediate pipeline of opportunities for investment. However, the assessment and various pilot business case developments in Grenada and the Dominican Republic showed an interest among fisheries SMEs to invest in making their businesses more economically sustainable and environmentally compatible.

The preliminary assessment work also demonstrated that it is currently a challenge for fisheries SMEs throughout the Caribbean to access existing credit lines available and that the options available locally generally provide loans up to USD 100 000 to 150 000 at relatively high interest rates. On the other hand, large (international) seafood enterprises active in the region, with loan demands of USD 1 million or more, generally are served by credit lines available in the USA or Europe. The fisheries SMEs and seafood companies in the region that require loans in the range of USD 150 000 to 750 000 for further development of their businesses encounter difficulties at present. The SFF could potentially address this gap in credit supply to the fisheries sector.

Carrying out a regional market supply and demand assessment of the finance needs of fisheries SMEs and seafood companies in the region would be an essential next step to assess their capital and credit options and needs.

Such an assessment would include:

- Capital Assessment — an assessment of the existing capital and credit options available to fisheries SMEs and seafood enterprises in the region
- Pipeline Assessment — an assessment of the fisheries SMEs and seafood enterprises in the region and their capital requirements

# A potential operating model for the SFF

## OPERATING MODEL: INTERMEDIARY LENDING

Through local banks, facilitate investments by fisheries SMEs and regional seafood enterprises in sustainable fisheries operations, value chain improvements and climate change adaptation.

This model reduces the transaction costs for the SFF by providing loans wholesale to existing local banks and microfinance institutions (MFIs) rather than directly to SMEs in the fisheries sector and seafood enterprises in the region. This option works best in markets where local lenders are strong and well positioned to serve SMEs, which is the case in most countries in the Caribbean/Western Central Atlantic region. This option would provide these lenders with the capital and technical assistance to develop financial products addressing the credit needs of local SMEs and regional seafood enterprises.

This model would require some TA to the local banks and finance institutions involved, as well as to the SMEs; both of a financial and technical advisory nature.

The TA would allow the SFF itself to operate with a lean staff, as the partner lenders (local banks and finance institutions) would do the day-to-day loan sourcing and management. The SFF would be a new legal entity. Its committees will play a relatively small role and would primarily evaluate the viability of financial institutions instead of SMEs. The TA fund would be kept separately from the SFF and be placed with the RFMO secretariat, which would distribute some of the funds for financial advisory services to the SFF management.

## FINANCE

The SFF would require an estimated fund size of USD 50 million, accompanied by a TA fund of USD 5 million. Grant funding will be needed in the first few years for the transition of the SFF from concept to reality, as well as for financial and technical assistance to local banks and SMEs during implementation. The fund will require low cost capital from development banks and/or finance institutions and private investors in subsequent years and at different risk levels.

The SFF would be active for a minimum of 15 years, and loan maturity would be reached within 10 years. Average investment in the local banks and finance institutions is expected to be USD 5 million (per lender) in order to incentivize their participation. Financial analysis indicates an expected net return to investors of 2 percent and USD 7 million in cash flows after ten years. Management fees of the SFF would be in the order of 2 percent and the local banks and service providers would likely charge around 4 to 5 percent.

Loan sizes to individual fisheries SMEs and seafood enterprises would be expected to range between USD 150 000 to 750 000. Interest rates on the loans to these enterprises are expected to be in the range of 10 –12 percent.

# Conclusion

As a concept, the SFF has significant attraction in addressing recognized challenges to sustainable fisheries in the Western Central Atlantic, as well as in terms of its potential contribution to Blue Growth and the SDGs. There appears to be a demand among fisheries SMEs and seafood enterprises for capital to improve the sustainability of their fisheries activities, but the specific scope and scale requires additional market and capital assessments.

The reality is that the SFF would operate in a nascent market segment with significant concerns associated with the pipeline and absorptive capacity of enterprises active in fisheries in the Caribbean countries. The number of fishery SMEs in the region focused on triple bottom line investments (with social, economic and environmental goals) that have been identified so far is rather low. However, because of the application of an Ecosystem Approach to Fisheries (EAF) by governments in the region, the support of SMEs to develop and implement management and conservation measures is rapidly increasing. Fishery SMEs, as well as fisherfolk organizations, are interested in collaborating with their government agencies to combat IUU fishing. Moreover, awareness is growing about value chain opportunities and about the options for adaptation to climate change challenges.

The SFF is a unique and innovative concept, as it would be the first fund that would directly link its objectives to implementation of the fisheries management and conservation recommendations of an RFMO. It would facilitate the uptake and implementation of these recommendations by the private sector, allowing the private sector to contribute effectively to the RFMO work.

The collaborative efforts of the governments in the Caribbean/ Western Central Atlantic, through the RFMO, combined with the private sector investments, supported by the SFF, are expected to increase the value generated by the fisheries sector to similar or higher levels than in the last millennium. The RFMO aims to increase fish production with 300 000 tonnes compared to the current level of 1.4 million tonness annually. It would do so by rebuilding stocks, reducing IUU fishing and promoting sustainable fishing practices. The SFF would increase the impact of the RFMO measures and play a catalytic role, expediting the regions' move towards sustainable fisheries and blue economies.

# Annex 1: The intermediary lending model further described

### INTERMEDIARY LENDING:
Invest in banks to introduce new products to SMEs Fisheries and seafood entreprises

### DESCRIPTION:
Provide local banks and finance organizations in selected WECAFC member countries with capital to invest in local SMEs in fisheries and regional seafood enterprises

### EXAMPLES:
EFSE — European Fund for South East Europe
IFC — International Finance Corporation Credit Line Facility
AGRA — Alliance for a Green Revolution in Africa

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## Type of investment

### DESCRIPTION — APPROACH & AIMS
- Invest in banks, MFIs, and other lending institutions that are well-positioned to serve SMEs in various sectors, rather than investing directly in SMEs.
- Offer banks, MFIs, and other lending institutions long-term debt at slightly below-market rates, with strong technical assistance, to incentivize banks to increase lending or introduce new products to SMEs in fisheries and seafood enterprises that aim to invest in triple bottom line improvements.

### SUPPLY & DEMAND ASSUMPTIONS
- This strategy is most appropriate in markets where there are strong banks and financial institutions that are well positioned to service SMEs, but need capital or technical assistance in developing products or processes and systems to address the credit needs of these SMEs.
- This strategy requires that there is sufficient unmet demand from SMEs for bank debt provided in alternative product offerings. This may be evidenced by high interest rates to SMEs and low bank liquidity.

### EXAMPLE INVESTMENTS
- New product: SFF provides a long term loan to a local bank to establish a fishery SME department and provide loans to small fishery enterprises.
- Extend SME lending: SFF provides a credit line or guarantee to a bank to encourage lending to fishery SMEs.

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# Investment instruments

### PRODUCTS

The SFF could offer various financial instruments to address long-term financing needs of partner lending institutions, including:

- Medium to long-term senior loans
- Subordinated loans
- Term deposits
- Subscriptions to bond issues
- Co-investments (syndicated loans)
- Standby letters of credit
- Guarantees
- Equity and quasi-equity participations
- Initially, the SFF should prioritize 3–5 products to build requisite expertise, but would remain flexible to SMEs capital and credit needs
- Example products that the SFF could help partner banks develop include trade finance in primary fisheries, or equipment financing products in support of climate change adaptation in fisheries

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# Support required

### PRE-INVESTMENT TA

Pre-investment TA to established financial institutions such as banks would not be applicable. There could be a role for pre-investment TA if the SFF would consider investing in an "on-the-cusp" micro-finance institution (MFI).

### POST-INVESTMENT TA

The SFF will provide substantial technical assistance, consulting and training to partner lending institutions (local banks), largely to assist in product development to address the credit needs of SMEs in fisheries. Additionally, investment officers will provide the lending institutions (local banks) with: strategy and business planning assistance, risk management, financial management, information systems management, internal audit and control, downscaling, sales and marketing and responsible finance and SME education.

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# Operating model

## STAFF SKILLS

- The SFF could assume full fund management and administration responsibilities.
- The SFF can operate with a lean staff because the partner lending institutions (local banks) will be originating and managing all the loans to SMEs.
- If the SFF is the fund manager, it will need to hire staff members that have extensive experience working with and financing commercial banks, who can work closely with local banks to develop new products for SMEs in fisheries. Experienced fund managers are critical. This staff will also need to be professionals who can maintain close contact with partner lending institutions.

## PROCESSES

- The SFF will need to develop streamlined and efficient processes for identifying potential partnerships with qualified lending institutions with significant investment opportunities in the prioritized fisheries sector enterprises.
- IT systems will need to be leveraged to ensure efficient transaction costs.

## COSTS

- The number of investment officers needed for this model will be relatively limited as they will not be sourcing deals themselves.
- Office costs may also be lower, as investment officers may be housed within a specific financial institution in the region, or within a larger global sustainability investment fund.

## GOVERNANCE

- The SFF would be a new legal entity, which could be tied (as applicable) to an existing global sustainability investment fund.
- The SFF should operate as an independent entity in identifying partner lending institutions to invest in within the Caribbean/ Western Central Atlantic region. The investment committee of the SFF would primarily evaluate the viability of the potential partner lending institutions (local banks).
- The RFMO Secretariat will manage the TA grant and will organize a "sustainable fisheries committee". This committee will provide advice to the SFF, monitor the SFF progress and report to the WECAFC members on achievements made.

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# Type of funding

## TARGET RETURNS

- Gross returns would be roughly 4–5%, in order to be below the rate that banks are able to obtain financing. MFIs that are likely to be more constrained in terms of financing could likely provide slightly higher gross returns.
- Net returns to investors can be expected to be on par with SFF's projected capital costs, at roughly 2–3%.

## FINANCING

The fund will seek to secure financing with a low 2–3% rate, in order to invest in banks at a slightly higher rate.

## GRANTS

- A grant will likely be required over the first few years to transition the SFF from concept to reality, and establish and scale the new SFF fund operations.
- Ongoing grant support for TA is likely to be small after that initial stage, and will involve the SFF investment officer(s) who will spend a substantial portion of time (~75%) on TA with banks.

## CI SUPPORT

Since this model requires significant fundraising from WECAFC member governments and donors for start-up costs, the SFF will likely require support from an organization, such as CI, in obtaining this financing.

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# Type of funders

## FUNDERS

- The SFF will need to seek out sources of low cost capital whenever possible. Primary sources of funding would likely be from multilateral and bilateral development banks and finance institutions.
- Once this model has been established, the SFF could potentially divide funders into different risk tranches, with public donors investing in the junior tranche, DFIs and international financial institutions in the mezzanine tranche and private investors in the senior tranche.

## PROS

- This model allows the SFF to provide loans on a wholesale basis through local financial institutions in the Caribbean, which could reach more SMEs than other direct lending strategies. The combination of capital and value-added technical assistance services provided to local banks will likely build up capacity of the local banking sector to lend to SMEs in the fisheries sector also in the future after SFFs investment has ended.
- Lending through commercial lending institutions with existing capabilities will also significantly lower the transactional costs for the SFF.
- Products successfully implemented by certain local banks may be replicated by banks in other countries.

## CONS

- Servicing banks and lending institutions is a distinct skill and niche.
- This model requires significant costs in setting up the fund, and requires relatively low-cost and subsidized capital for its operations. Initial investment costs are not likely to be covered by returns, so a significant upfront investment will be required.

## OTHER CONSIDERATIONS

- Pursuing this model at scale will require investments from a number of development banks or financial institutions, WECAFC member governments and donors.
- The SFF would need to promote or invest in its brand.
- The SFF implementation will depend somehow on the process of establishment of the RFMO in the WECAFC area, as the RFMO will have the capacity to handle the TA fund. The current (2018) WECAFC is still a regional fishery advisory body operating within the FAO framework and without financial independence.

# Financial analysis

## SUMMARY

- The bank model entails only taking bank- or MFI-level risk, rather than SME risk, and therefore, while gross returns will be lower in order to incentive banks to take investment, write-offs will be relatively low.
- A management fee of 2% nearly covers the management costs for the 15 year period, and management's net profit becomes positive in year four once initial contributed capital is fully deployed. A management fee of 3% would cover projected expenses.
- Grant pass-through is USD 3.8 million.
- In order to provide a net return of 8% to investors, interest rates charged to fisheries SMEs and required seafood entreprises would need to be 10–12%.

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## ASSUMPTIONS CONSIDERED

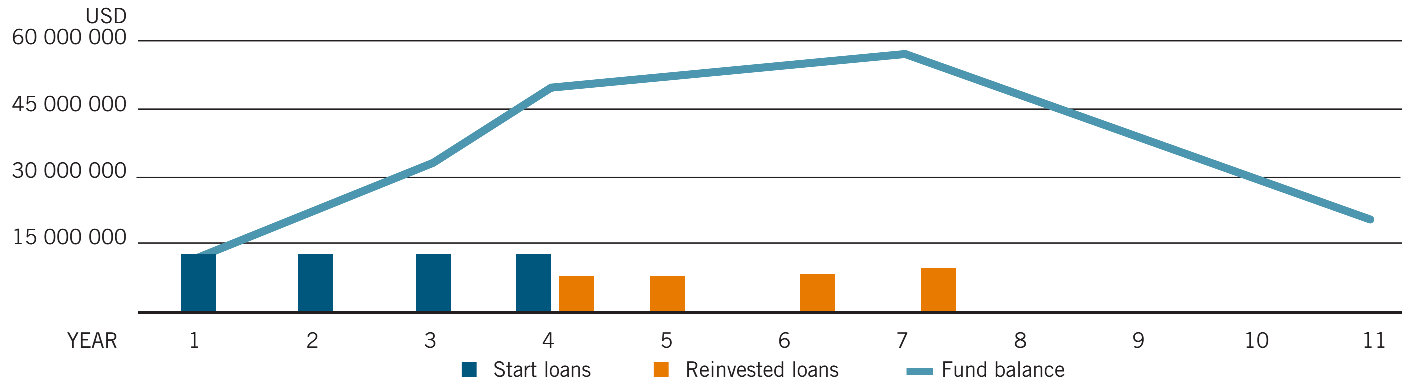
- Management fee: 2%
- Fund size: USD 50 million
- Allows for 2 Investment officers each establishing one local bank partnership per year
- Average investment size: USD 5 million
- A sizable amount of money would need to be lent to the bank/MFIs to incentivize them to participate in the fund
- Percent of portfolio debt: 100%
- Royalties: 1% Weighted average interest rate on debt: 11%
- Similar to current rates on trade finance
- Write off for debt: 2%
- Fund Years: 15
- Loan Maturity: 10 Years
- Reinvestment years: 4
- Grant size for TA: 5% of invested capital
- Reinvestment Rate: 95%
- Ongoing legal reduction rate: 8%
- Lifecycle: Wind-up, 4 years; Reinvestment, 4 years

## KEY FINANCIAL OUTPUT

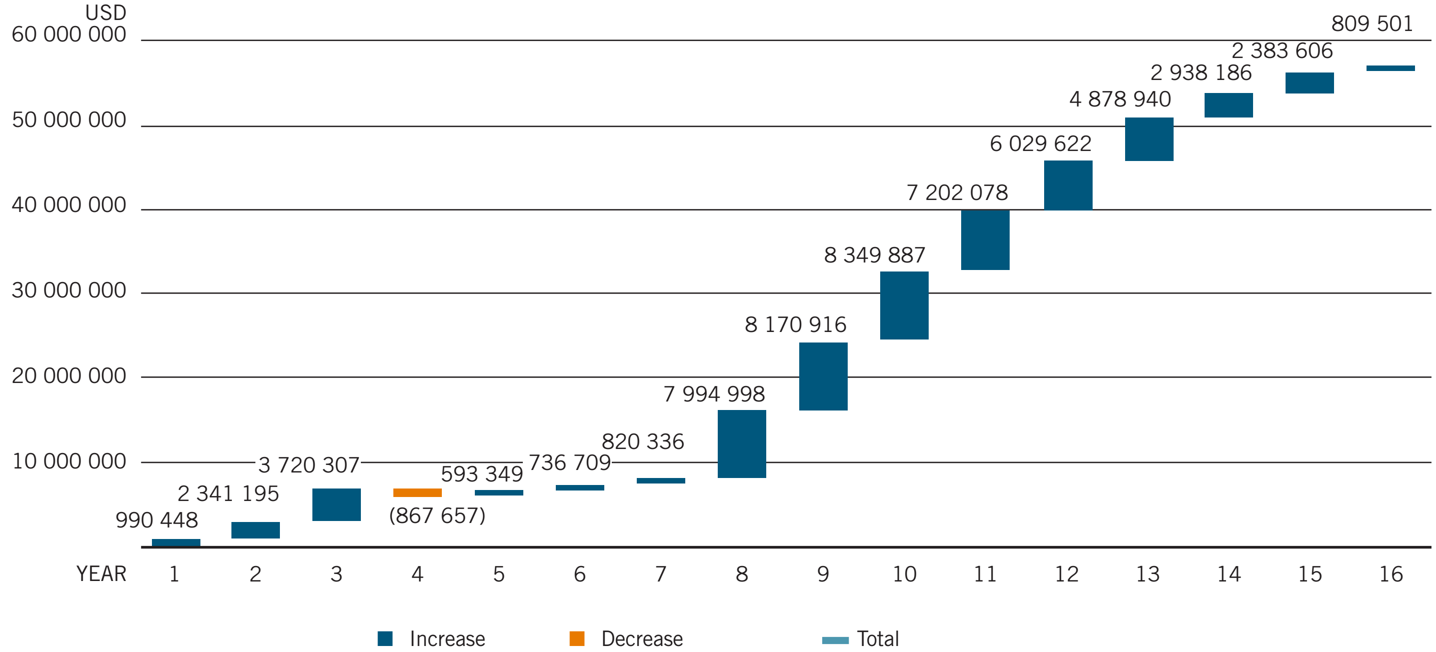
- Total annual management costs: USD 1 million
- Non-management professional fees (Year 1): USD 485 000
- Managements gain/loss: (USD 292 000)
- Net return to investors: 2%
- Cumulative investor cashflow after 10 years: USD 7 million

# Illustrative examples

## FUND LIFECYCLE




## CASH BALANCE



# Endnotes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# For more information

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The Sustainable Fisheries Fund (SFF) proposed in this brochure aims to enhance the conservation and management of marine aquatic resources and promote sustainable fisheries operations and value chains in the Western Central Atlantic. The SFF would enable the private sector involved in fisheries in the region to access credit at relatively low interest rates, reduced guarantees and more flexible conditions, compared to commonly applied commercial bank loans. The increased credit access will contribute to faster and wider implementation of regionally agreed fisheries recommendations by the private sector.

The SFF is an innovation in fisheries impact investments, as it will be the first fund that will directly promote RFMO recommendations implementation by the private sector.

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